

Message Text

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ACTION EUR-12

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FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 3883
INFO AMEMBASSY BONN
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AMEMBASSY THE HAGUE
AMEMBASSY HELSINKI
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL GOTEBOG POUCH

UNCLAS SECTION 1 OF 3 STOCKHOLM 2053

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E.O. 11652: N/A
TAGS: ECIN, ELTN, ENRG, EIND, NO, SW
SUBJECT: NORWEGIAN INTERESTS TO ACQUIRE LARGE SHARE OF SWEDISH VOLVO

1. AT A PRESS CONFERENCE ON MAY 22, PEHR GYLLENHAMMAR
OF AB VOLVO, SWEDEN'S LARGEST INDUSTRIAL CONCERN, RE-
VEALED THAT HIS COMPANY HAS REACHED AN AGREEMENT WITH
THE NORWEGIAN GOVERNMENT UNDER WHICH THE LATTER AND
PRIVATE INTERESTS WOULD SHARE OWNERSHIP IN THE SWEDISH
COMPANY ON A 40-60 PERCENT BASIS.

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2. BRIEFLY, THE ARRANGEMENTS WITH NORWAY PROVIDE FOR
THE FOLLOWING: AB VOLVO, THE PRESENT PARENT COMPANY OF
THE VOLVO GROUP, WILL BE REORGANIZED INTO A HOLDING COM-
PANY TO BE CALLED SVENSKA AB VOLVO. THE OWNERS OF THIS
HOLDING COMPANY WILL BE THE PRESENT SHAREHOLDERS OF AB
VOLVO. ANOTHER HOLDING COMPANY, CALLED NORSK VOLVO A/S,

WILL BE ESTABLISHED IN NORWAY. THIS COMPANY WILL BE OWNED BY THE NORWEGIAN PUBLIC, WHO WILL BE INVITED TO SUBSCRIBE ABOUT 75 MILLION KRONOR OF TOTAL SHARE CAPITAL, AND BY THE NORWEGIAN GOVERNMENT, WHICH IS EXPECTED TO CONTRIBUTE ABOUT 675 MILLION KRONOR. A THIRD COMPANY, TO BE CALLED VOLVO SVENSKT-NORSKT AB, WILL BE ESTABLISHED TO TAKE OVER THE EXISTING FACILITIES OF AB VOLVO, WITH THE EXCEPTION OF THE VOLVO FLYGMOTOR DIVISION (AIRCRAFT ENGINES) OWNERSHIP OF VOLVO SVENSKT-NORSKT AB WILL BE SHARED BETWEEN THE SWEDISH HOLDING COMPANY SVENSKA AB VOLVO (WHICH WILL SUBSCRIBE 60 PERCENT OF THE CAPITAL STOCK) AND THE NORWEGIAN HOLDING COMPANY (40 PERCENT). THE SHARE CAPITAL OF THE JOINTLY OWNED VOLVO SVENSKT-NORSKT AB HAS NOT YET BEEN DECIDED.

3. ACCORDING TO PRESENT PLANS, THE SWEDISH HOLDING COMPANY SVENSKA AB VOLVO WILL ALSO ESTABLISH A WHOLLY OWNED SUBSIDIARY TO BE CALLED VOLVO PETROLEUM AB. THE NORWEGIAN GOVERNMENT, AS PART OF THE DEAL WITH VOLVO, HAS PROMISED TO GIVE THAT COMPANY A CONCESSION TO EXPLORE FOR OIL IN NORWAY'S OILFIELDS IN THE NORTH SEA. VOLVO, BESIDES BEING A MOTOR VEHICLE MANUFACTURER, WILL THUS ENTER THE FIELD OF OIL PROSPECTING AND, POSSIBLY OIL PRODUCTION.

4. PRESENT PLANS ALSO CALL FOR THE MOVING TO NORWAY OF UNCLASSIFIED

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VOLVO'S PENTA DIVISION (MARINE AND INDUSTRIAL ENGINES). SOME 500 WHITE COLLAR EMPLOYEES AND 220 BLUE COLLAR WORKERS WOULD BE AFFECTED BY THE MOVE. THEY MAY CHOOSE TO GO TO NORWAY IF THEY WISH, BUT SHOULD THEY DECIDE TO REMAIN IN SWEDEN IT MIGHT BE DIFFICULT FOR THEM TO FIND COMPARABLE EMPLOYMENT.

5. ACCORDING TO THE PRESS, SWEDISH AND NORWEGIAN INDUSTRY AND TRADE CIRCLES BELIEVE THAT THE VOLVO DEAL WITH THE NORWEGIAN GOVERNMENT WILL OPEN ADDITIONAL OPPORTUNITIES FOR SWEDISH-NORWEGIAN INDUSTRIAL COOPERATION AS WELL AS COLLABORATION IN THE ENERGY FIELD. VOLVO'S CHIEF EXECUTIVE, PEHR GYLLENHAMMAR, REMARKED THAT HE HAD BEEN INTERESTED IN CLOSER COLLABORATION WITH NORWAY SINCE THE EARLY 1970'S. NOW THAT VOLVO WILL HAVE ACCESS TO FRESH CAPITAL, IT CAN PURSUE AN OFFENSIVE DEVELOPMENT COURSE RATHER THAN A DEFENSIVE ONE, AS HAS BEEN THE CASE IN RECENT YEARS. A NEW CAR MODEL, HE SAID, WILL BE INTRODUCED IN THE EARLY 1980'S. THAT CAR WILL MAKE GREATER USE OF ALUMINUM AND PLASTIC. NORWAY IS PLANNING TO EXPEND ITS PRODUCTION CAPACITY OF THESE COMMODITIES SUBSTANTIALLY DURING THE YEARS AHEAD.

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6. PEHR GYLLENHAMMAR ALSO REVEALED THAT THE VOLVO
FLYGMOTOR DIVISION WILL NOT BE INCORPORATED INTO THE
JOINTLY OWNED SWEDISH-NORWEGIAN COMPANY BECAUSE OF ITS
CHARACTER AS A DEFENSE INDUSTRY. HE THOUGHT THAT A
MANUFACTURER OF DEFENSE MATERIEL SHOULD BE WHOLLY UNDER
SWEDISH OWNERSHIP. GYLLENHAMMAR FURTHER INDICATED THAT
THE DEAL WITH NORWAY WILL, IN THE SHORT TERM, CREATE
BETWEEN 3,000 AND 5,000 NEW JOB OPPORTUNITIES IN
NORWAY. THE AGREEMENT WITH THE NORWEGIAN GOVERNMENT, HE
SAID, WAS SO COMPREHENSIVE THAT ALL THE DETAILS HAVE NOT
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YET BEEN THOROUGHLY WORKED OUT. HOWEVER, IN SUMMING UP HE SAID THE FOLLOWING: "NORWAY IS OUR THIRD LARGEST EXPORT MARKET. THE DEAL WITH NORWAY MEANS THAT WE SHALL HAVE A LARGER 'HOME MARKET.' THE AGREEMENT WITH NORWAY ALSO IMPLIES THAT WE SHALL NOT BE SHORT OF FUNDS FOR FINANCING OUR CONTINUED DEVELOPMENT. THE AVAILABILITY OF THESE FUNDS WILL GIVE US THE POSSIBILITY OF ENTERING INTO COMPLETELY NEW AREAS OF ENDEAVOR. VOLVO ALREADY HAS A LARGE NUMBER OF SUBCONTRACTORS IN NORWAY. THE AGREEMENT MAY BE EXPECTED TO CREATE ADDITIONAL JOBS FOR SUBCONTRACTING FIRMS IN THAT COUNTRY."

7. SWEDISH REACTIONS SO FAR HAVE BEEN POSITIVE. PRIME MINISTER THORBJORN FALLDIN, WHO HELD A PRESS CONFERENCE IN STOCKHOLM ON THE DAY OF THE ANNOUNCEMENT, TOLD REPORTERS THAT THE SWEDISH GOVERNMENT HAD BEEN KEPT INFORMED OF VOLVO'S PLANS ALL ALONG. FALLDIN SAID NORWEGIAN PRIME MINISTER ODVAR NORDLI HAD SPOKEN TO HIM ON THE SUBJECT AT THE NORDIC COUNCIL MEETING IN OSLO IN FEBRUARY AND ADDED THAT HE, FALLDIN, HAD TAKEN A POSITIVE STANCE FROM THE START PROVIDED THAT JOBS WOULD NOT DISAPPEAR IN SWEDEN. "NATURALLY, THE NORWEGIAN NEGOTIATORS WANTED AS RAPID AN EMPLOYMENT EFFECT AS POSSIBLE IN NORWAY," FALLDIN WAS QUOTED AS SAYING, "AND IF THEIR INTENTIONS HAD BEEN REALIZED IT WOULD HAVE MEANT A TRANSFERENCE OF PRODUCTION. WHAT HAS NOW BEEN AGREED ON IS NO MORE THAN A MOVE OF THE VOLVO PENTA DIVISION'S OPERATIONS TO NORWAY." FALLDIN GAVE ASSURANCES THAT NO OTHER VOLVO JOBS WOULD BE MOVED TO NORWAY WITH THE FOLLOWING WORDS: "VOLVO'S PRODUCTION IN NORWAY MUST BE CONSTRUCTED AROUND THE RESULTS OF THE DEVELOPMENT WORK THAT WILL NOW ENSUE, AND THIS WILL NOT LEAD TO AUTOMOBILE PRODUCTION IN THE NEXT GENERATION OF CARS--WHICH

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IS TO SAY THAT OF THE 80'S. IN THE LONGER TERM, HOWEVER, NORWAY CAN OBTAIN CAR PRODUCTION IN THE SAME WAY AS THIS COLLABORATION CAN FURTHER STRENGTHEN VOLVO IN SWEDEN, BRINGING MORE JOB OPPORTUNITIES." THE SWEDISH PRIME MINISTER INDICATED THAT THE NORWEGIAN GOVERNMENT HAD "SEVERAL MILLION TONS OF OIL A YEAR" AT ITS DISPOSAL WHICH COULD BE NEGOTIATED FOR.

8. GERT GUNNARSSON, VOLVO METALWORKER UNION'S REPRESENTATIVE ON THE BOARD OF THE COMPANY, WAS INFORMED OF THE PLAN A WEEK AGO AND TOLD JOURNALISTS HE WAS IN FAVOR OF IT. "WE ARE GEOGRAPHICALLY SO CLOSE TO NORWAY AND THE HISTORICAL TIES BETWEEN OUR TWO NATIONS ARE SO STRONG THAT NORWAY CANNOT BE SEEN AS A FOREIGN COUNTRY. THINGS

WOULD HAVE BEEN MUCH WORSE IF THE MONEY HAD COME FROM SAUDI ARABIA, FOR INSTANCE, OR ONE OF THE LARGE CAR MANUFACTURING CORPORATIONS." OTHER VOLVO EMPLOYEE COMMENTS RAN IN A SIMILAR VEIN, THOUGH THERE WAS, UNDERSTANDABLY, CRITICISM AT VOLVO PENTA.

9. SWEDISH OPPOSITION LEADER OLOF PALME KNEW OF THE PLAN BY EARLY MARCH AND WAS KEPT INFORMED ALL ALONG BY THE VOLVO MANAGEMENT AND THE NORWEGIAN PRIME MINISTER UNDER A PLEDGE OF SECRECY. PALME TOLD THE PRESS: "WE MUST UNDERSTAND THAT VOLVO, THROUGH AN AGREEMENT WITH THE NORWEGIAN GOVERNMENT, HAS WISHED TO SECURE DYNAMIC DEVELOPMENT WITHIN THE FIRM." NONETHELESS, HE TOOK THE OPPORTUNITY TO CRITICIZE THE ACTIONS OF THE FALLDIN GOVERNMENT, OR RATHER THE LACK OF THEM, BY POINTING OUT HOW EXTRAORDINARY IT WAS THAT AN INDUSTRIAL POLICY MOVE OF SUCH DIMENSIONS SHOULD HAVE BEEN WORKED OUT BY A PRIVATE CORPORATION AND A NORWEGIAN SOCIAL DEMOCRATIC GOVERNMENT WHILE THE SWEDISH GOVERNMENT WATCHED FROM THE WINGS.

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10. SWEDISH DAILY SVENSKA DAGBLADET, OF STRONG MODERATE PARTY LEANINGS, TOOK A VERY POSITIVE ATTITUDE TO VOLVO'S INTENTIONS IN ITS EDITORIAL, SAYING THAT THE FIRM WAS NOT ONLY SECURING NECESSARY FINANCIAL REINFORCEMENT BUT WAS ALSO ACTING ON BEHALF OF THE COUNTRY AS A WHOLE IN PAVING THE WAY FOR OIL DELIVERIES AND CONCESSIONS. THE EDITORIAL OF THE OTHER MAJOR NATIONAL DAILY, DAGENS NYHETER, WAS MORE RESERVED IN TONE: IT NOTED, AMONG OTHER THINGS, THAT VOLVO'S EARLIER ENDEAVORS IN THE SPORTS EQUIPMENT SECTOR AND WITH THE DUTCH DAF CAR HAD

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NOT BEEN AS SUCCESSFUL AS HOPED. "THE PRELIMINARY AGREEMENT BETWEEN VOLVO AND THE NORWEGIAN GOVERNMENT OPENS A BROAD AND EXCITING PERSPECTIVE FOR THE FUTURE," THE EDITORIAL SAID, "BUT IT IS TOO EARLY TO SAY WHAT IT WILL AMOUNT TO IN REALITY--THE DIFFUSE POINTS ARE FAR TOO MANY FOR US TO SAY ANYTHING ON THAT SCORE."

11. THE EDITOR OF BUSINESS PAPER DAGENS INDUSTRI SUGGESTED IN HIS EDITORIAL COMMENT THAT VOLVO'S MANAGING DIRECTOR GYLLENHAMMAR MIGHT HAVE HAD A SORT OF PARALLEL TO THE SCANDINAVIAN AIRLINES SYSTEM, SAS, IN MIND WHEN HE APPROACHED OSLO, THAT A SCANDINAVIAN CAR SYSTEM MIGHT BE SEEN AS A LOGICAL CONCLUSION AT THE FAR END OF THE TUNNEL. SIMILARLY, SVENSKA DAGBLADET'S EDITORIAL ASKED: AREN'T THERE PLANS FOR A LARGE NORDIC CAR CORPORATION, BASED IN SWEDEN, NORWAY, AND FINLAND?

12. THE SAAB-SCANIA CORPORATION HELD ITS ANNUAL GENERAL MEETING IN LINKOPING ON THE SAME DAY AS VOLVO'S NORWEGIAN PLAN WAS ANNOUNCED. DR. MARCUS WALLENBERG, CHAIRMAN OF THE SAAB-SCANIA BOARD OF DIRECTORS, WAS QUOTED IN THE PRESS AS SAYING: "I BELIEVE THAT BOTH SAAB AND VOLVO COULD FIND IT TO THEIR ADVANTAGE TO COLLABORATE, PARTICULARLY ON THE TRUCK SIDE. THERE ARE NO LONGER THE PRECONDITIONS FOR A MERGER, ON THE OTHER HAND," WHICH MIGHT BECOME ONE OF THE UNDERSTATEMENTS OF THE SWEDISH BUSINESS YEAR. MR. STEN GUSTAFSSON OF THE WALLENBERG-OWNED INCENTIVE GROUP, WAS APPOINTED NEW MANAGING DIRECTOR OF SAAB-SCANIA AFTER CURT MILEIKOWSKY, WHO IS MOVING TO THE POLITICAL SCENE IN AN ADVISORY CAPACITY TO THE LIBERAL PARTY.

13. AMONG THE MORE AMUSING SUGGESTIONS THAT HAVE

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APPEARED FOR RECHRISTENING THE VOLVO CAR IS THE T-FJORD.
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